



DEPARTMENT OF HEALTH AND HUMAN SERVICES

REGION V
105 W. ADAMS ST.
CHICAGO, ILLINOIS 60603620 1

March 14, 1997

OFFICE OF
INSPECTOR GENERAL

Common Identification Number: A-05-96-00056

Michael L. Mory
Executive Secretary
State Retirement Systems
P.O. Box 19255
Springfield, Illinois 62794-9255

Dear Mr. Mory:

Enclosed for your information and use are two copies of an Office of Inspector General (OIG) audit report entitled, "Review of Pension Costs at the State Retirement Systems." The audit covered the period July 1, 1993 through June 30, 1995.

Final determination as to actions taken on all matters reported will be made by the HHS action official. We request that you respond to the HHS action official within 30 days from the date of this letter. Your response should present any comments or additional information that may have a bearing on the final determination.

In accordance with the principles of the Freedom of Information Act (Public Law 90-23), OIG audit reports issued to the Department's grantees and contractors are made available, if requested, to members of the press and general public to the extent information contained therein is not subject to exemptions in the Act which the Department chooses to exercise. (See 45 CFR Part 5.)

To facilitate identification, please cite Common Identification No. A-05-96-00056 in all correspondence relating to this report.

Sincerely,

A handwritten signature in black ink, reading "Paul Swanson", is positioned above the typed name.

Paul Swanson
Regional Inspector General
for Audit Services

Enclosures

Department of Health and Human Services

**OFFICE OF
INSPECTOR GENERAL**

**REVIEW OF PENSION COSTS AT THE
STATE RETIREMENT SYSTEMS**

SPRINGFIELD, ILLINOIS



**JUNE GIBBS BROWN
Inspector General**

MARCH 1997
A-05-96-00056



DEPARTMENT OF HEALTH AND **HUMAN SERVICES**

REGION V
105 W. ADAMS ST.
CHICAGO, ILLINOIS 60603620 1

March 14, 1997

OFFICE OF
INSPECTOR GENERAL

SUEJECT: Review of Pension Costs
State Retirement Systems
Springfield, Illinois
Common Identification No. A-05-96-00056

TO: Michael L. Mory, Executive Secretary
State Retirement Systems
P. O. Box 19255
2101 South Veterans Parkway
Springfield, Illinois 62794-9255

This letter report provides you with the Results of our Review of Pension Costs charged to Federal Programs for members of the State Retirement Systems (SRS). The objective of this limited review was to determine whether pension contributions charged to Federally funded programs were fair and equitable compared to contributions for State-funded programs.

Although pension charges to Federal programs were equitable for most State agencies, some agencies did not charge pension contributions at the same rate as was charged to State programs. Because pension funds were appropriated at a rate lower than needed to meet the actuarially determined contribution rate, funding available to meet the State's pension costs for some agencies was exhausted prior to the end of the fiscal year. Once the appropriated funds were exhausted, the agencies stopped remitting the State's share of pension costs to SRS, while the Federal share was remitted and claimed for reimbursement. Office of Management and Budget (OMB) Circular A-87 requires that pension costs be uniformly charged to both Federally assisted and other activities in order to be allowable.

For the period July 1, 1993 through June 30, 1995, nine State agencies overcharged the Federal Government a total of \$1,061,190 because their charges to Federal programs continued although their appropriated funds for pension contributions were expended. This amount was offset by undercharges to State programs by two State agencies totaling \$516,487.

We are recommending that the State: (i) refund the net overcharges of \$544,703 (\$1,061,190 less \$516,487) to the Federal Government, or (ii) eliminate the net shortfall in State employer contributions by obtaining additional funding needed to restore the amount of \$544,703 to the pension fund. SRS officials concurred in our recommendation in an exit conference held on March 11, 1997, and have taken steps to obtain the additional funding.

INTRODUCTION

BACKGROUND

The Federal Government shares in the pension costs of State employees who work on Federally funded programs. To be allowable under OMB Circular A-87, these costs must be applied uniformly to both Federally assisted and other activities of the grantee. The Federal Government will pay the employer's share of pension contributions for employees working on Federally funded programs at the same rate as is contributed for their work on State General Revenue-funded programs.

In Illinois, the SRS is responsible for administering pension fund activities for eligible State employees who are not members in one of the four retirement systems established for specific groups (such as teachers, judges, etc.). Contributions are forwarded to the SRS by the various State agencies each pay period on behalf of their eligible employees.

Illinois pension costs are determined by an actuarial board which sets the pension rate necessary to fund the retirement system. This rate is called the Board Certified rate. An annual valuation of the liabilities and reserves of the System's Trust Fund is performed by SRS's actuarial consultants in order to determine the amount of contributions required. For fiscal years 1994 and 1995, the Board Certified contribution rates were 5.57% and 6.2% respectively. The Illinois General Assembly, however, appropriated the employer's contribution for the legislatively funded agencies at the rates of 3.95% and 4.0% for these years.

Since fiscal year 1984, the Illinois legislature has appropriated funds for pensions costs at a rate lower than the Board Certified rate. State agencies contributed State monies to the pension fund at the Board Certified rate until the appropriated funds for the fiscal year were exhausted. As a result of insufficient appropriations, the retirement Trust Fund contributions were underfunded through June 30, 1995. To resolve this inequity, the State General Assembly passed Public Act 88-0593, which became effective on July 1, 1995. The Act requires the General Assembly to fund pensions at the Board Certified rate. The Act also allows the Illinois Comptroller's Office to process an agency's payroll only if the Board Certified pension rate is funded.

SCOPE OF REVIEW

Our review was performed in accordance with generally accepted government auditing standards. The objective was to determine whether pension contributions for Federally funded programs were fair and equitable compared to contributions for State-funded programs. To accomplish our objective, we reviewed financial statements and other data for the SRS pension fund to determine

whether pension contributions for Federally funded programs were made at the same rate as contributions for State funded programs.

Due to the limited scope of our audit, we did not conduct a detailed study and evaluation of the SRS's internal control structure. We relied primarily upon the independent public accountants' review of internal controls related to pension contributions. Our limited review did not disclose any conditions which we believe to be significant control weaknesses.

Our review covered the period July 1, 1993 through June 30, 1995. It was conducted at the SRS and various State agencies during the period June through December 1996.

RESULTS OF REVIEW

Our review disclosed that some State agencies did not fund pension contributions to Federal and State programs at the same rate. For 9 of these agencies, available funding for pensions was exhausted prior to the end of the fiscal year because State funds were appropriated at a rate lower than the Board Certified rate. Once appropriated funding was exhausted, the agencies stopped forwarding the State's share of pension contributions to SRS. For 2 State agencies, the State's pension contributions exceeded their appropriate share because they forwarded all of their appropriated pension funds (which were based on budgeted salaries) even though they did not incur all of their budgeted salary costs.

OMB Circular A-87, Attachment A, Section C.1., states in part that:

...To be allowable under a Federal award, costs must meet the following criteria . . . Be consistent with policies, regulations, and procedures that apply uniformly to both federally assisted and other activities of the governmental unit....

Further, Attachment B, Section 10.e., states that pension costs are allowable if:

... (2) The methods do not discriminate against Federal programs....

We identified 30 State agencies which administer Federally funded programs and obtained salary and pension expenses for their State General Revenue and Federal programs. To determine compliance with OMB Circular A-87 which requires consistency among programs, we calculated the average pension contribution rates for both State and Federal programs using the data obtained from these 30 agencies. We performed a detailed review at the 11 State agencies with the largest differences between their Federal and

State rates. We did not verify the data provided by the remaining 19 agencies because the differences were insignificant.

We determined that 9 of the 11 State agencies overcharged the Federal funded programs a total of \$1,061,190 and 2 State agencies overpaid their State share of pension contributions by \$516,487.

The overcharges to Federal programs for the period July 1, 1993 through June 30, 1995, were as follows:

<u>Agency</u>	<u>Overcharge</u>
State's Attorney Appellate Prosecutor	\$ 4,666
Department of Alcohol and Substance Abuse	29,797
Department of Children and Family Services	131,315
Department of Employment Security	374,231
Department of Public Health	116,999
Illinois State Police	89,998
Planning Council on Developmental Disabilities	26,736
State Board of Education	133,639
Student Assistance Commission	153,809
Department of Rehabilitation Services	(460,784)
Environmental Protection Agency	(55,703)
Total	<u>\$ 544,703</u>

In summary, because appropriated funds were insufficient to meet the State's full share of pension costs based on the Board Certified rate, pension costs were not uniformly applied to State and Federally assisted programs and activities.

RECOMMENDATIONS

We recommend that the State: (i) refund the net overcharges of \$544,703 to the Federal Government, or (ii) eliminate the net shortfall in State employer contributions by obtaining additional funding needed to restore the \$544,703 to the pension fund.

STATE AGENCY RESPONSE

In an exit conference held on March 11, 1997, the SRS agreed with our finding and recommendation. The agency has taken action to obtain additional funding to eliminate the net shortfall in State employer contributions. A copy of their written response is appended to this report.

* * * * *

It should be recognized that the conclusions in this report represent the findings and opinions of the Office of Inspector General. Final determinations will be made by authorized

Mr. Michael L. Mory - Page 5

officials of the HHS operating division. Should you have any questions or comments concerning the matters commented on in this report, please direct them to the Division of Cost Allocation.

In accordance with the principles of the Freedom of Information Act (Public Law 90-23), Office of Inspector General audit reports issued to the Department's grantees and contractors are made available, if requested, to members of the press and general public to the extent information contained therein is not subject to exemptions in the Act which the Department chooses to exercise. (See 45 CFR Part 5.)

To facilitate identification, please cite Common Identification No. A-05-96-00056 in all correspondence relating to this report.

A handwritten signature in cursive script that reads "Paul Swanson".

Paul Swanson
Regional Inspector General
for Audit Services

APPENDIX

SRS' S RESPONSE TO DRAFT AUDIT REPORT



STATE
RETIREMENT
SYSTEMS

- State Employees' Retirement System of Illinois
- General Assembly Retirement System
- Judges' Retirement System of Illinois

2101 South Veterans far&way, P.O. Box 19255, Springfield, IL 62794-9255
Phone (217)785-7016 Fax (217)785-7019

March 11, 1997

Michael E. Kersting, Senior Auditor
U.S. Department of Health & Human Services
Office of Inspector General
Office of Audit Services
400 West Monroe, Suite 204B
Springfield, IL 62704-1 800

Report No. A-05-96-00056

Dear Mr. Kersting:

We have received your proposed Inspector General report entitled *Review of Pension Costs at the State Retirement Systems (SRS)* for the period of July 1, 1993 through June 30, 1995.

Based upon our review of the aforementioned report, it is our intention to pursue the collection of \$544,703 from the State of Illinois, which would satisfy the recommendation (ii) contained on page 1. This recommendation stipulates that the State "... (ii) eliminate the net shortfall in State employer contributions by obtaining additional funding needed to restore the amount of \$544,703 to the pension fund."

Initial discussions have already been held with the Bureau of the Budget, State of Illinois, regarding the payment of such funds to SRS.

We will notify your office when we receive final **confirmation** that the funds have been paid. If you should have any additional questions or need additional information, please contact Nick Merrill, Chief Fiscal Officer, at (2 17) 785-2340.

Very truly yours,

Michael L. Mory
Executive Secretary

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MLM/mn